

Message Text

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INFO OCT-01 AF-10 EUR-12 NEA-11 ISO-00 CIAE-00 DODE-00
PM-05 H-01 INR-10 L-03 NSAE-00 PA-01 SP-02
NSCE-00 SSO-00 ICAE-00 INRE-00 EB-08 AID-05
TRSE-00 OMB-01 IO-13 COME-00 HA-05 /103 W
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O 141407Z JUN 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC IMMEDIATE 7250
INFO AMEMBASSY BONN IMMEDIATE
AMEMBASSY THE HAGUE IMMEDIATE
AMEMBASSY KINSHASA IMMEDIATE
AMEMBASSY JIDDA IMMEDIATE
RUDTCAMEMBASSY LONDON IMMEDIATE 6287
YUEHOT/AMEMBASSY OTTAWA IMMEDIATE 2387
AMEMBASSY PARIS IMMEDIATE
AMEMBASSY ROME IMMEDIATE
AMEMBASSY TEHRAN IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 11718

E.O. 11652: GDS
TAGS: CG, EAID, EFIN
SUBJECT: BRUSSELS MEETING ON ZAIRE; SECOND SESSION

TARNOFF FOR SECRETARY

REF: A) BRUSSELS 11652, B) BRUSSELS 11653

1. SUMMARY. BRUSSELS MEETING CONTINUED AFTERNOON
OF JUNE 13 WITH CONSIDERATION IN PLENARY OF MOBUTU
PLAN WHILE WORKING GROUP AGREED ON AT MORNING
SESSION TOOK UP QUESTION OF ZAIRE'S ESSENTIAL IMPORT
REQUIREMENTS OVER NEXT THREE MONTHS. BOTH PROCEEDED
ON LARGELY TECHNICAL PLANE. ZAIRE DELEGATION
RESPONSES TO ARRAY OF QUESTIONS ON OVERALL ECONOMIC
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MANAGEMENT REFORMS AND OTHER DETAILS OF MOBUTU PLAN
OFTEN LACKED PRECISION AND WERE NOT FULLY
CONVINCING. USEFUL EXCHANGE TOOK PLACE ON INSTALLATION
FOREIGN EXPERTS IN KEY POSITIONS AT CENTRAL BANK
AND MINISTRY FINANCE AND IMF STABILIZATION ROLE
WITH CONSENSUS THAT NEW STABILIZATION PROGRAM SHOULD
BE NEGOTIATED WITHOUT FURTHER DELAY. FIRST DAY OF

MEETING JUNE 14 FACES LIKELY BELGIAN MOVE TO PRESS FOR CONSENSUS TO PUT LANGUAGE INTO JOINT COMMUNIQUE OR FIND A STATEMENT CALLING FOR A MIXED COMMISSION TO COORDINATE EMERGENCY ASSISTANCE AND ASSURE ITS EFFICIENT DISTRIBUTION. END SUMMARY.

2. STABILIZATION. AFTERNOON SESSION CONCLUDED WITH FRANK DISCUSSION OF ALTERNATIVE IMF STABILIZATION SCENARIOS INCLUDING LINKS TO REFORM MEASURES AND EXTERNAL ASSISTANCE. IMF REP POINTED OUT THAT FUND RESOURCES ARE FAR BELOW WHAT IS NEEDED IN ZAIRE. WITHOUT ADDITIONAL EXTERNAL ASSISTANCE, STABILIZATION PROGRAM WOULD BE VERY SEVERE AND PROBABLY NOT SUSTAINABLE OVER TIME. IMF SOUGHT INDICATIONS OF EXTERNAL ASSISTANCE POSSIBILITIES TO ASSIST IN THE PREPARATION OF ZAIRE'S STANDBY. ALTERNATIVE PERIODS FUND CONSIDERING FOR NEW STABILIZATION AGREEMENT RANGE FROM SIX MONTHS TO THREE YEARS. SIX MONTH PROGRAM WOULD TAKE ZAIRE THROUGH IMMEDIATE EMERGENCY PERIOD. ANOTHER ONE YEAR PROGRAM WOULD INCORPORATE BASIC ADMINISTRATIVE REFORMS AND ESTABLISH BUDGET AND BOP PERFORMANCE TARGETS, BUT WOULD BE A NO GROWTH SCENARIO. EITHER SIX MONTH OR ONE YEAR PROGRAM COULD BE COMBINED LATER WITH A THREE YEAR EXTENDED FACILITY WHICH WOULD MAKE ALLOWANCE FOR SOME REAL ECONOMIC GROWTH. GIVEN LACK OF SPECIFIC DEVELOPMENT PLAN AND CONFIDENTIAL

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DONOR RELUCTANCE TO DISCUSS SPECIFIC ASSISTANCE PROSPECTS FUND AND GOZ ARE CURRENTLY LEANING TOWARD ONE-YEAR OPTION.

ZAIRIANS UNDERSCORED ESSENTIALITY OF FUND AGREEMENT TO RECOVERY AND OUTLINED WHAT THEY CONSIDERED MAJOR STUMBLING BLOCK TO CONCLUDING AN AGREEMENT WITH THE FUND -- FUND SAYS IT UNABLE BEGIN STANDBY NEGOTIATIONS BEFORE KNOWING KIND AND AMOUNTS OF EXTERNAL ASSISTANCE AVAILABLE AND DONORS SAY THEY ARE UNABLE TO TALK ABOUT ASSISTANCE LEVELS UNTIL THERE IS NEW STABILIZATION AGREEMENT. CHAIRMAN INVITED VIEWS ON HOW TO DEAL WITH THIS PROBLEM. HORMATS SPEAKING FOR USDEL AND SUPPORTED BY U.K. AND BELGIUM POINTED OUT RELATIONSHIP BETWEEN IMMEDIATE SHORT-RUN PROBLEM IN ZAIRE, THE MEDIUM TERM STABILIZATION PERIOD AND LONG TERM RECOVERY. HE EMPHASIZED IMPORTANCE OF IMPLEMENTING MANAGEMENT AND ADMINISTRATIVE REFORMS AS SOON AS POSSIBLE AND THEN PROCEED IN INTEGRATED FASHION IN DEALING WITH OTHER PROBLEMS. SIGNIFICANT REFORMS ARE BASIS OF LARGER TERM PROGRAMS. A ONE YEAR IMF STABILIZATION AGREEMENT SOUNDS

LIKE A GOOD IDEA BECAUSE IT NOT ONLY ESTABLISHES A BASIS FOR STABILIZATION BUT LEAVES THE DOOR OPEN FOR A RECOVERY PROGRAM AS WELL. THE IMF RESOURCE DILEMMA IS NOT A NEW ONE AND BOTH THE OUTLINES OF THE PROGRAM AND EXTERNAL RESOURCE ASSISTANCE POSSIBILITIES HAVE TO MOVE IN A PARALLEL MODE.

3. MANAGEMENT REFORM. CONSENSUS REACHED AMONG DONORS THAT KEY ELEMENT IN ECONOMIC MANAGEMENT REFORM IS INSTALLATION OF A "PRINCIPAL DIRECTOR" AT BANK OF ZAIRE RESPONSIBLE FOR FORMULATING AND IMPLEMENTING

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C O N F I D E N T I A L SECTION 02 OF 02 BRUSSELS 11718

MONETARY, CREDIT AND EXCHANGE POLICY AND ANOTHER

HIGH OFFICIAL AT MINISTRY FINANCE. IMF REP INDICATED
SUITABLE CANDIDATE IDENTIFIED FOR BANK JOB AND EXPECTED
AT POST BY LATE AUGUST. STRONG NEED EXPRESSED BY
SEVERAL DELEGATIONS FOR COORDINATION BETWEEN FOREIGN
EXPERTS IN IMPLEMENTATION OF REFORM AND STABILIZATION
POLICIES LED TO ORAL REQUEST TO FUND BY BOKANA FOR
AN "ORDONNATEUR-DELEGUE" AT MIN FINANCE. FUND REP
AGREED TO TAKE THIS UNDER CONSIDERATION FOR DECISION
BY STAFF OR FUND MANAGEMENT. FRENCH INDICATED THAT THEY
WOULD NOT CONTINUE SEARCH FOR FINANCE EXPERT IF FUND
WILLING PROVIDE ONE. BOKANA STATED BANK DIRECTOR'S
CONTRACT WOULD BE FOR ONE YEAR AND RENEWABLE THEREAFTER.
DELEGATES QUESTIONED EXTENT OF AUTHORITY OF BANK
DIRECTOR AND POSSIBLE WEAKENING OF HIS AUTHORITY BY
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ZAIRIAN BANK GOVERNOR. BOKANA EMPHASIZED DIRECTOR
ALTHOUGH PROVIDED FREE HAND WOULD STILL BE UNDER
AUTHORITY AND DIRECTION OF BANK GOVERNOR, BUT POINTED TO
SIMILAR ARRANGEMENTS AT OTHER GOVERNMENT AGENCIES
(ONATRA, SNEL) DID NOT PREVENT SATISFACTORY OPERATION
BY EXPATRIATES. BELGIAN CHAIRMAN INDICATED
DISCUSSIONS BEING FINALIZED WITH ZAIRE AND CUSTOMS
EXPERTS EXPECTED TO BE IN PLACE BY END JULY.

EXTENDED QUESTIONING FROM DONOR REPS AND LONGER
EXPLANATION BY ZAIRIANS ON EXCHANGE ALLOCATION
MECHANISM RESULTED IN PROMISE BY BOKANA THAT
ZAIRE AUTHORITIES WILL DRAW UP FOREIGN EXCHANGE
BUDGET LISTING PRIORITY IMPORTS FOR EXCHANGE
ALLOCATION.

4. REPORT ON WORKING GROUP SESSION ON ZAIRE'S
EMERGENCY IMPORT REQUIREMENTS FOLLOWS SEPTEL.
CHAMBERS

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